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PRAIRIE OIL ROYALTIES

COMPANY, LTD.

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ANNUAL REPORT



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PRAIRIE OIL ROYALTIES COMPANY, LTD.

Annual Report FOR FISCAL YEAR ENDED JUNE 30, 1959

BOARD OF DIRECTORS:

John B. Aird *Toronto, Ontario*
Jack Coles *New York, N.Y.*
Ross H. Faulkner *New York, N.Y.*
Benjamin Heffner *New York, N.Y.*
Joseph H. Hirshhorn *Toronto, Ontario*
M. A. MacPherson *Regina, Saskatchewan*
Morris N. Palmer *Calgary, Alberta*
Winfield H. Perdun *New York, N.Y.*
R. R. Rusmisl *New York, N.Y.*

OFFICERS:

John B. Aird *President & Treasurer*
D. M. Tyerman *Secretary*

HEAD OFFICE:

2236 Albert Street, Regina, Saskatchewan

COUNSEL:

MacPherson, Leslie and Tyerman, Regina,
Saskatchewan
Simpson Thacher and Bartlett, New York, N.Y.

AUDITORS:

Ross, Touche & Co., Toronto, Ontario

MANAGEMENT:

Devon-Palmer Oils Ltd. (No Personal Liability)
Calgary, Alberta

TRANSFER AGENT & REGISTRAR:

The Toronto General Trusts Corporation, Regina,
Saskatchewan

CO-TRANSFER AGENT & REGISTRAR: CO-TRANSFER AGENT:

The Royal Trust Company, Toronto, Ontario
Morgan Guaranty Trust Company of New York,
New York, N.Y.

CO-REGISTRAR:

Chemical Bank New York Trust Company,
New York, N.Y.

STOCK EXCHANGE LISTINGS:

Toronto Stock Exchange, Toronto, Ontario
American Stock Exchange, New York, N.Y.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

To the Shareholders:

The Board of Directors of your Company take pleasure in submitting the Annual Report of the Company for the year ended June 30, 1959. Included in this report are the Auditors' financial statements, a review of the Company land holdings and oil reserves and summary of the activity that has taken place on Company holdings during the past fiscal year. The reserve statements have been prepared by Devon-Palmer Oils Ltd., as Manager of the Company, and examined and approved by the consulting firm of J. C. Sproule & Associates.

It is to be noted that drilling activity on Company acreage was higher than in previous years resulting in the completion of 47 new oil wells and one gas well. The majority of these wells were drilled in the Midale-Weyburn area of southeastern Saskatchewan, which area is still under active development. It is expected that continued drilling will result in further extensions and discoveries on your Company's acreage.

During the past year your Company considerably increased its investment in British Columbia Oil Lands Ltd. (Non-Personal Liability) and now holds 171,561 shares of that company. The total share position acquired by Prairie is carried on its books at an average of \$3.31 per share and as of the date of this letter the market bid for these shares is approximately \$15.50 per share. You will recall that the additional purchase of these shares was in part financed by a bank loan and this extension of credit and the purchase of the shares was approved by the shareholders of the Company at a Special General Meeting called for that purpose on the 20th May, 1959.

British Columbia Oil Lands has large land holdings in the Fort Nelson area, British Columbia. The past year has seen several major and important gas discoveries on or near that company's holdings and your directors feel that the Fort Nelson area of British Columbia will receive considerable early development, particularly in the coming months. It is expected that the coming drilling season will see developments in this area which will enhance the investment in this company. Your Board of Directors continues to feel that holding this share interest in British Columbia Oil Lands is the best manner of participating in this most promising area.

The acquisition of certain oil and land interests from Devon-Palmer Oils Ltd., and Canamerican Land and Exploration Company Limited, was approved at a general meeting on April 8, 1958. Title examination of these properties has now been completed and the properties were accepted in exchange for 200,000 shares of the capital stock of the Company. Income from these properties is not reflected in the financial statements as the exchange was not finally completed until after the end of the fiscal year.

Your Board of Directors feel that it would be premature to comment upon the effect that The Mineral Contracts Re-negotiation Act of Saskatchewan may have

upon the interests held by your Company. As you are aware, this Act was passed in implementation of the findings of the Royal Commission established to consider the transactions relating to the acquisition of this type of interest, particularly relating to those interests held by the Prudential Trust Company. Under the terms of the Act, the landholder has been given the right to refer the circumstances of acquisition to the Board established under the Act. It is understood that action of this nature has been taken by certain landholders, but the extent and effect cannot be measured at this time. Your Company is diligently protecting its position as it may be affected by The Mineral Contracts Re-negotiation Act, and every step will be taken to observe developments, and if necessary, to take action with respect to them if and when the circumstances warrant.

Income for the past year remained at a satisfactory level despite lower production rates throughout Western Canada. Net profits for the year show an increase from \$31,292.00 to \$43,774.00. Unaudited statements for the first quarter ending September 30, 1959 reveal a continuing increase in revenue inasmuch as the net profit for this three months is \$25,824. These figures do not include your Company's share of the income from certain producing properties in Saskatchewan which are held in trust for your Company, Freeholders Oil Company Limited and the Grantor. Distribution of the funds held in trust by The Canada Permanent Trust Company has been delayed by a claim asserted by Freeholders and disputed by your Company. This dispute has been referred to the Court of Queen's Bench of Saskatchewan and has now been settled by Order dated 24th November, 1959. The Company's share of these funds accumulated over the past several years and the Company has now been paid \$180,914.59.

It is also to be noted that your Company's position was upheld by the Saskatchewan Court of Appeal in the very important Edwin Meyer case referred to in last year's Annual Report. This case has now been appealed to the Supreme Court of Canada. If the Company's position continues to be sustained it will be of great significance to the disposition of several other law suits presently pending and which are particularly referred to in the financial statements. It may also be noted that the final ruling in this case will be of great interest to those companies in Western Canada involved in similar litigation.

Respectfully submitted on behalf of the Board.

JOHN B. AIRD

PRESIDENT

November 30, 1959

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Balance Sheet

ASSETS

	1959	1958
CURRENT ASSETS		
Accounts receivable	\$ 14,073	\$ 13,225
INVESTMENT IN SHARES OF BRITISH COLUMBIA		
OIL LANDS LTD., at cost (approximate market value 1959 — \$1,972,952; 1958 — \$240,000)	568,131	111,705
CAPITAL ASSETS, at cost		
Producing royalty interests less accumulated depletion of \$66,831 — 1959; \$54,300 — 1958	180,488	186,759
Non-producing properties	1,185,214	1,171,411
	<u>1,365,702</u>	<u>1,358,170</u>
 <i>See accompanying notes to financial statements which form an integral part hereof.</i>		
	<u><u>\$1,947,906</u></u>	<u><u>\$1,483,100</u></u>

This is the balance sheet referred to in our report dated September 8, 1959.

ROSS, TOUCHE & CO.

Chartered Accountants

PRAIRIE OIL ROYALTIES COMPANY, LTD.

as at June 30, 1959

STATEMENT 1

LIABILITIES

	1959	1958
CURRENT LIABILITIES		
Bank loan — secured	\$ 150,000	\$ —
Overdraft on current account	4,391	(281,822)
Accounts payable	43,499	68,247
	<u>197,890</u>	<u>(213,575)</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 1)		
Authorized — 2,500,000 shares of \$1.00 each		
Issued — 1,612,775 shares including 5,000 shares issued during the year for cash through the exercise of a stock option	1,612,775	1,607,775
CONTRIBUTED SURPLUS (Note 2)	120,684	116,121
EARNED SURPLUS (DEFICIT) — Statement 2	16,577	(27,221)
	<u>1,750,016</u>	<u>1,696,675</u>
	<u>\$1,947,906</u>	<u>\$1,483,100</u>

Approved on behalf of the Board

JOHN B. AIRD, Director

ROSS H. FAULKNER, Director

PRAIRIE OIL ROYALTIES COMPANY, LTD.

STATEMENT 2

Statement of Operations and Surplus

FOR THE YEAR ENDED JUNE 30, 1959

	1959	1958
Royalty income	\$145,228	\$147,750
Expenses		
Legal fees and disbursements	35,422	37,760
Management fees	15,523	—
Compensatory royalties	9,944	18,234
Engineering fees and expenses	9,573	13,904
Trust company fees and expenses	8,139	10,805
Office and miscellaneous expenses	4,013	4,205
Loan interest expense	3,625	—
Audit fee	1,650	2,677
Directors' fees	775	275
Lease rentals	255	1,157
	<u>88,919</u>	<u>89,017</u>
Operating profit before provision for depletion	56,309	58,733
Less provision for depletion	12,531	27,441
Net profit for the year	43,788	31,292
Less deficit of prior year	27,221	58,513
Earned surplus (Deficit) — Statement 1	<u>\$ 16,557</u>	<u>\$(27,221)</u>

AUDITORS' REPORT

To the Shareholders of Prairie Oil Royalties Company, Ltd.

Calgary, Alberta

We have examined the balance sheet of Prairie Oil Royalties Company, Ltd. as at June 30, 1959 and the related statement of operations and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the litigation referred to in Note 4, the accompanying balance sheet and statement of operations and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 1959 and the results of its operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the company. All the transactions of the company that have come to our notice have been within the objects and powers of the company.

ROSS, TOUCHE & CO.

Chartered Accountants

Calgary, Alberta

September 8, 1959 (November 25, 1959 with respect to Note 5)

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Explanatory Notes to Financial Statements

JUNE 30, 1959

1. Stock options and stock option warrants are outstanding entitling the holders thereof to purchase shares of the capital stock of the Company as follows:

Stock options exercisable at the rate of \$2.00 per share in U.S. funds and expiring October 31, 1961.

On or after November 1, 1955	2,800 shares
On or after November 1, 1956	3,500 shares
On or after November 1, 1957	3,500 shares
On or after November 1, 1958	3,500 shares
On or after November 1, 1959	3,500 shares
On or after November 1, 1960	3,500 shares
On or after October 1, 1961	4,000 shares
	24,300 shares

Stock option warrants exercisable at the rate of \$1.25 per share in U.S. funds on or prior to April 5, 1962

63,745 shares

88,045 shares

2. Contributed surplus was increased during the year by the amount of \$4,562.50, being consideration received from the sale of shares in excess of stated par value.
3. At an extraordinary general meeting held on April 8, 1958, the shareholders approved the acquisition by the Company of certain oil interests from Devon-Palmer Oils Ltd. and its wholly-owned subsidiary, Canamerican Land and Exploration Company Limited, in exchange for 200,000 shares of the capital stock of the Company. These shares had not been issued at June 30, 1959, nor has any income relating to these interests been taken up in the books of the Company. The income from these interests not yet recorded is estimated to amount to \$6,000.00.
4. Ten owners of Freehold Titles in Saskatchewan have commenced actions to rescind the transfers of mineral interests made by them to Freeholders Oil Company Limited. These interests were acquired by the Company from Western Royalties Limited which in turn had acquired them from Freeholders Oil Company Limited. The Company is not at this time in a position to estimate the outcome of such actions, but intends to participate with Freeholders Oil Company Limited in the defense thereof.
5. The Company holds freehold mineral rights in certain Saskatchewan properties, jointly administered under trust agreement, which have come into production. Although substantial income from such production has been earned and is held by the trustee, no portion thereof has been taken up in the accounts of the Company as at June 30, 1959 since no cash has yet been received. The Company's portion of such undistributed earnings at November 25, 1959 is estimated at approximately \$180,000.

Development

Production

Reserves

A total of 47 new oil wells and one new gas well were completed during the last year on acreage in which Prairie has royalty interests. Drilling on Prairie lands in the Swift Current area of Southwestern Saskatchewan showed a decrease, as five new oil wells and one gas well were completed as compared to thirteen new oil wells in 1957. However, new completions on Company acreage in Southeastern Saskatchewan in 1958 totalled 42 as compared to 21 for the previous year.

In the Swift Current area, the main activity on Company acreage was development drilling in the Illerbrun field. Four development wells were drilled in this field on acreage lying between the Instow Unit and the Bone Creek field.

Unitization of fields in this area continued. Previous to this year the Fosterton and South Success fields came under unit operation. Gull Lake and Instow were unitized during the past year and plans are under way to unitize the Cantuar field. It is anticipated that unitization will lead to more efficient production methods and an eventual increase in recoverable reserves.

In Southeastern Saskatchewan drilling on Prairie lands increased appreciably. Activity was concentrated in the medium gravity crude areas of Weyburn, Midale and Viewfield where a total of 32 new producing wells were drilled. Most of these wells were drilled on Crown lease acreage held by Shell Oil Company and subject to a 2½ % over-riding royalty to Prairie.

Two wells were completed on acreage farmed out by Prairie and on which the Company retained a 7½ % over-riding royalty.

New discoveries were made on three exploratory wells drilled on Company lands. At Oungre, twenty miles south of Weyburn, a Midale zone discovery was made in March of this year. This discovery well was completed with a flow rate of approximately 100 barrels of oil per day. The other two discoveries were made seven miles north and five miles south of the Midale field. In addition to their interest in the discovery wells, Prairie has over-riding royalties on large land holdings nearby. It is expected that these lands will receive development in the coming year.

During the first six months of 1959, Prairie's net oil production averaged 335 barrels per day. As at the year end, Prairie held varying royalty interests in a total of 20 oil fields in the Swift Current area and Southeastern Saskatchewan.

The Company's net recoverable oil reserves as calculated by Devon-Palmer Oils Ltd.'s technical staff, under supervision of J. C. Sproule & Associates, were 1,158,284 barrels as of June 30, 1959. This is substantially less than the total reserve reported last year, the difference being due primarily to the elimination of the estimated reserves previously credited to the Company's properties under the category of "probable additional oil." Reserves were calculated in accordance with accepted industry practices. As there are no generally accepted rules within the

industry for the calculation of reserves other than for those classified as proven, the decision was made to discontinue reporting "probable additional oil" reserve figures. Proven reserves are 205,011 barrels less than reported at the end of the previous fiscal year. The Company during the past year farmed out several proven parcels located along the margins of producing fields. These parcels had low reserves and development involved some risk. Considering these factors and the development costs involved, it was not deemed advisable for the Company to embark on their own drilling program. Accordingly, these parcels were farmed out on the basis of a retained 7½% gross over-riding royalty. The Company's share of the reserves under these parcels was thereby reduced from 87½% to 7½% causing the above reduction in proven reserves.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

This is to certify that we have examined and approve of the oil reserves of Prairie Oil Royalties Company, Ltd., as of June 30, 1959, as presented by Devon-Palmer Oils Ltd. Total net Company proven drilled and undrilled reserves are given as 1,158,284 barrels. Reference to the cut-off date of June 30, 1959 has to do, not only with deduction of production to that date, but also with the fact that no pertinent developments since then have been taken into consideration.

The changes in former reserves are in accordance with our present estimates, as additional performance data have become available. Although we have not studied the estimates in detail, new reserves have been calculated using factors comparable to our own, and appear reasonable. All land and well descriptions as provided by Prairie Oil Royalties Company, Ltd. have been accepted as correct without investigation as to title or interest held.

J. C. SPROULE & ASSOCIATES

Dated at Calgary, Alberta
October 7, 1959

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Holdings AS AT JUNE 30th, 1959

A. LAND

SASKATCHEWAN

1. 3¾ % gross royalty interest in approximately 529,554 acres of freehold land.
2. 30% mineral interest in approximately 19,932 acres of freehold land.
3. 10% net carried interest in 160 acres of freehold land.
4. 1¼ % gross overriding royalty interest in approximately 356,548 acres of Crown Petroleum and Natural Gas Lease lands in Fosterton-Gull Lake Area.
5. 2½ % gross overriding royalty interest in approximately 477,787.75 acres of Crown Petroleum and Natural Gas Lease lands in Estevan-Midale Area.
6. 100% interest in 1,318.5 acres of Crown Petroleum and Natural Gas Lease lands in the Estevan-Midale Area (formerly 2½ % Gross Overriding Royalty interest).
7. 5% gross overriding royalty in 80 acres of Crown Petroleum and Natural Gas Lease lands in the Midale field.
8. 7½ % gross overriding royalty in 320 acres of Crown Petroleum and Natural Gas Lease lands in the Midale-Benson Area.
9. 6¼ % gross royalty interest in 48,798.87 acres of freehold land.
10. 12½ % gross royalty interest in 4,889.09 acres of freehold land.
11. 3⅛ % gross royalty interest in 480 acres of freehold land.

MANITOBA

1. One-half interest in a 6¼ % gross royalty interest in approximately 124,151 acres of freehold land.
2. 6¼ % gross royalty interest in 10,741.8 acres of freehold land.

NORTHWEST TERRITORIES

1. 2½ % gross royalty interest in Crown Petroleum and Natural Gas Permit Number 479, containing approximately 52,960 acres.
2. 3.7131% ownership interest in thirty-eight Petroleum and Natural Gas Permits numbered 880, 886 to 888 inclusive, 890 to 910 inclusive, 921, 923, 924, 933 to 937 inclusive, 981, 1386, 1387, 1526 and 1527, aggregating approximately 2,024,456 acres, in the southwestern portion of the Territories, in the upper MacKenzie District, south of Fort Simpson and Fort Providence and centred 70 miles west of Great Slave Lake.

B. OTHER COMPANIES

BRITISH COLUMBIA OIL LANDS LTD. (Non-Personal Liability)

1. 171,561 shares of British Columbia Oil Lands, an exploration company holding an interest in approximately 2,051,786 acres of Crown Petroleum and Natural Gas Permit lands in northeastern British Columbia. Pursuant to an agreement with a company registered to do business in Alaska, British Columbia Oil Lands also holds a 50% interest in 100,000 acres of lease lands and an exclusive option to acquire a 50% interest in an additional 100,000 acres in Alaska.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Summary of Activity

SASKATCHEWAN

By acquisition of the royalty and mineral interests of Devon-Palmer Oils Ltd. and Cana-merican Land and Exploration Company Limited, Prairie increased its interests in Southeastern Sas-katchewan and Southwestern Manitoba. The ac-quisition included both producing and non-pro-ducing acreage. The Company has accepted some small tracts of Crown lands surrendered by Shell Oil Company and farmed these out for an over-riding royalty. / Due to the continued de-velopment in Southeastern Saskatchewan, no land interests have been dropped by the Company.

In the Swift Current area, Mobil Oil dropped Crown leases totalling 417,438 acres on which Prairie held a $1\frac{1}{4}\%$ gross royalty. These lands were located in areas where a continued lack of success was evident in wildcat ventures. As at the year end, Prairie held a $1\frac{1}{4}\%$ gross royalty interest in 356,548 acres in the Swift Current area.

A summary of the Company's land holdings by areas as at June 30, 1959, is presented in a schedule to be found elsewhere in this report.

MANITOBA

Under the Devon-Palmer agreement, Prairie increased its interests in Manitoba from a one-sixth interest to a one-half interest in $6\frac{1}{4}\%$ gross royalty in approximately 124,151 acres.

NORTHWEST TERRITORIES

Permit 479 containing approximately 52,960 acres, and subject to a $2\frac{1}{2}\%$ over-riding royalty to Prairie, has been maintained by Shell Oil Com-pany. This permit is located three miles north of the British Columbia boundary and twenty miles east north-east of the Pan American Beaver River #1 gas discovery in northeastern British Columbia. Recent large gas discoveries in the Fort Nelson area of British Columbia have created great interest in this general area.

PRAIRIE OIL ROYALTIES COMPANY, LTD.

British Columbia Oil Lands Ltd.

(NON - PERSONAL LIABILITY)

During the past year Prairie has increased appreciably its share holdings of British Columbia Oil Lands. As of June 30, 1959, holdings of this company totalled 171,561 shares as compared to 87,661 shares held at the end of the previous fiscal year. British Columbia Oil Lands holds varying interests in 2,051,786 acres of permit lands located in the Fort Nelson area of British Columbia and a 50% interest in 200,000 acres of lease and option lands in Alaska.

1. BRITISH COLUMBIA

British Columbia Oil Lands holds the following interests in the Fort Nelson area:

Area	Interest	Disposition of Land
454,783 acres	25% carried	Farmed to Gulf States-El Paso
1,474,437 "	12½% carried	" " Pan American Petroleum.
92,160 "	25% carried	" " " "
30,406 "	37½% working	
<u>2,051,786 acres</u>		

Drilling in the 1958-59 season in the Fort Nelson area resulted in several major gas discoveries. One of the discovery wells, Gulf States Kotcho Lake #3, is located on British Columbia Oil Lands acreage and another, Gulf States Petitot River #1, is within one mile of this company's holdings. Kotcho Lake #3 produced gas from the Middle Devonian at the rate of 18.2 million cubic feet per day on a ¾ inch choke. The open flow potential on this well is not known but it is believed to be large and may rival that of the B.A.-Shell Berland River #1 well in Alberta. The second major gas discovery in the area, Gulf States Petitot River #1, is unofficially reported as having an open flow potential in excess of 150 million cubic feet of gas per day from Middle Devonian Slave Point horizon. This well is undoubtedly of great significance to the large holdings of British Columbia Oil Lands in this area.

Other large gas discoveries were made, during the last drilling season, within twenty miles of this company's holdings. Eighteen miles to the northwest of a large block held by the company and under development by Pan American Petroleum Corporation and Imperial Oil Ltd., Pan American made a gas discovery at Pan Am Beaver River # 1. Thirteen miles south of another company permit being developed by Pan American, Gulf States are actively developing their Clark Lake Middle Devonian gas field.

As of June 30, 1959, the market value of Prairie's interests in British Columbia Oil Lands amounted to \$2,230,000. It is anticipated that the coming winter drilling season will see a greatly accelerated exploration and development program in the Fort Nelson area. This, along with the prospect of an early extension of Westcoast Transmission Company's gas pipeline facilities to serve this area, makes it very probable that your Company's investment will be further enhanced in the coming year.

2. ALASKA

British Columbia Oil Lands holds a 50% interest in 200,000 acres of lease and option lands in Alaska by virtue of an agreement with a company registered to do business in that State. A geophysical program has been carried out on part of this acreage. Exploratory drilling on this acreage is contemplated within the next three years.

INDEX MAP.

SHOWING
APPROXIMATE LOCATION OF ACREAGE INTERESTS
HELD BY
PRAIRIE OIL ROYALTIES COMPANY LTD.

MILES 0 50 100 150 200 250
SCALE

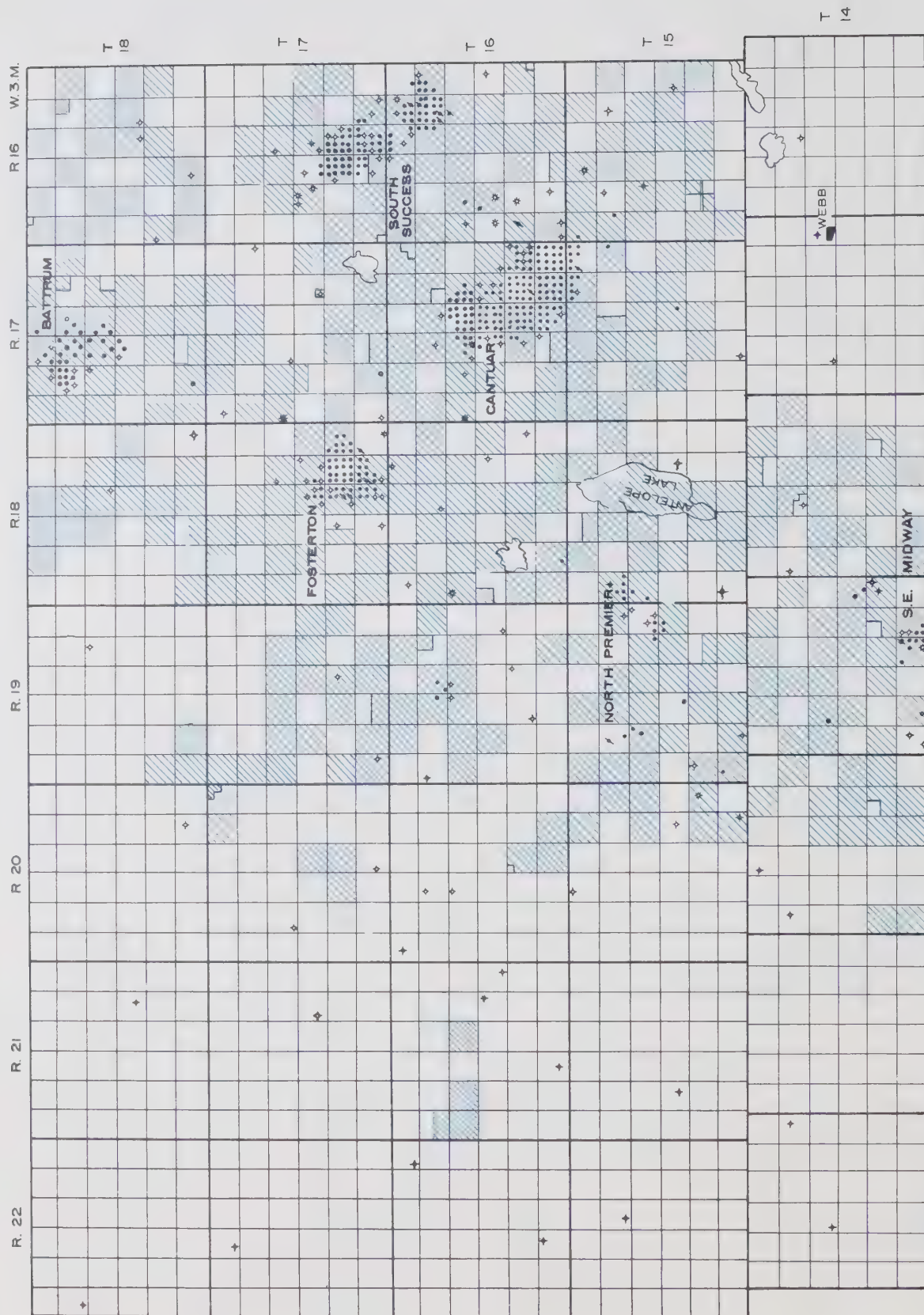
—ACREAGE LEGEND—

- | | | | |
|---|--|----|--|
| 1 | SWIFT CURRENT AREA
NORTH AND SOUTH SHEETS | 5 | WILLMAR AREA |
| 2 | RALPH-MIDALE AREA | | GROSS ROYALTY AND MINERAL
INTEREST AREA |
| 3 | ALIDA-NOTTINGHAM AREA | 97 | NORTHWEST TERRITORIES ACREAGE |
| 4 | WAPELLA AREA | 98 | B.C. OIL LANDS LTD. ACREAGE |

- LEGEND—
- | | |
|-------|-----------------------|
| — | OIL PIPELINE |
| - - - | GAS PIPELINE |
| | GAS PIPELINE PROPOSED |



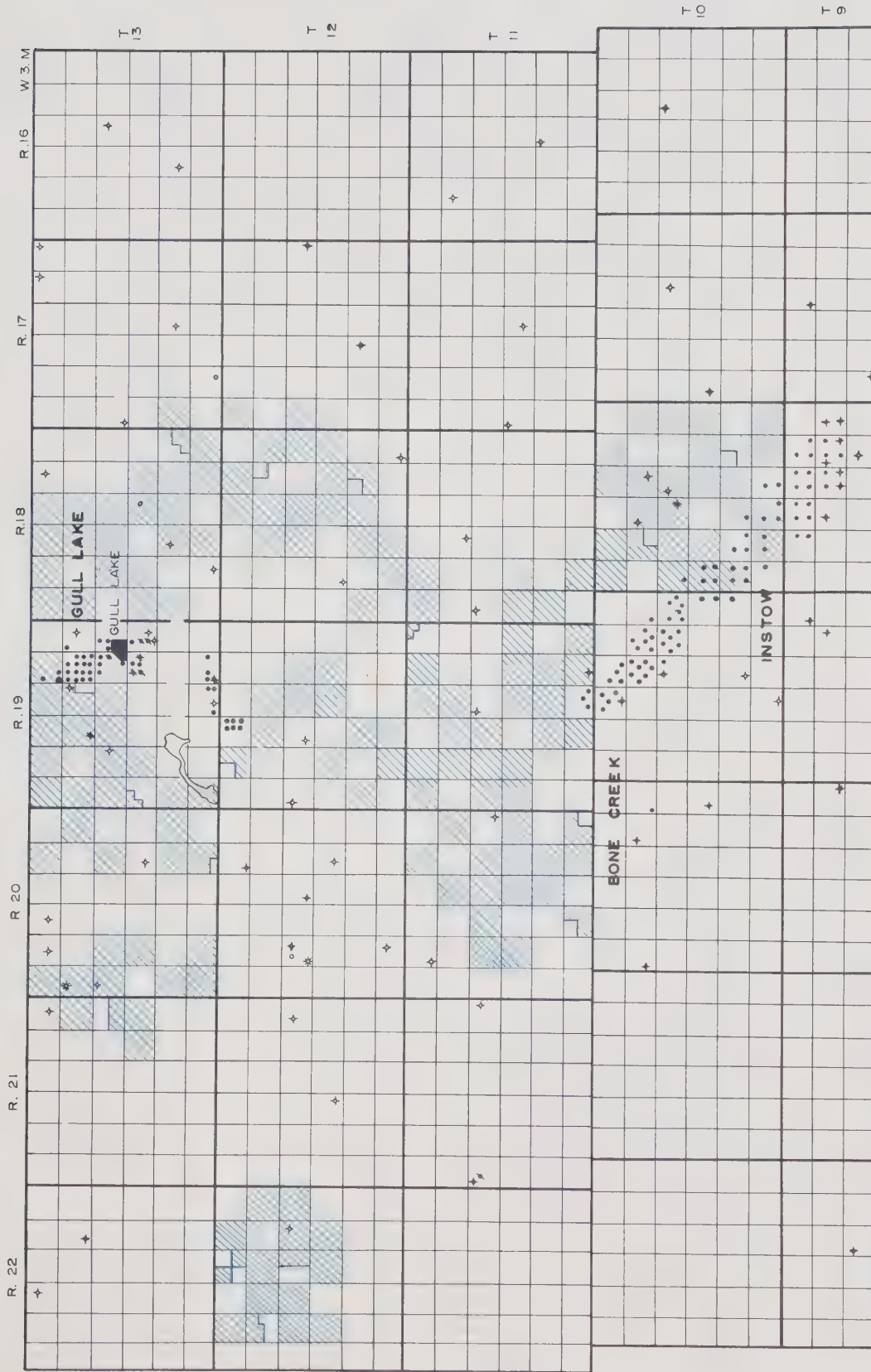
SWIFT CURRENT AREA NORTH SHEET



1 1/4% GROSS ROYALTY (CROWN LEASE)

- LOCATION
- OIL WELL
- ✦ GAS WELL
- ✧ ABANDONED
- ✧ ABANDONED OIL

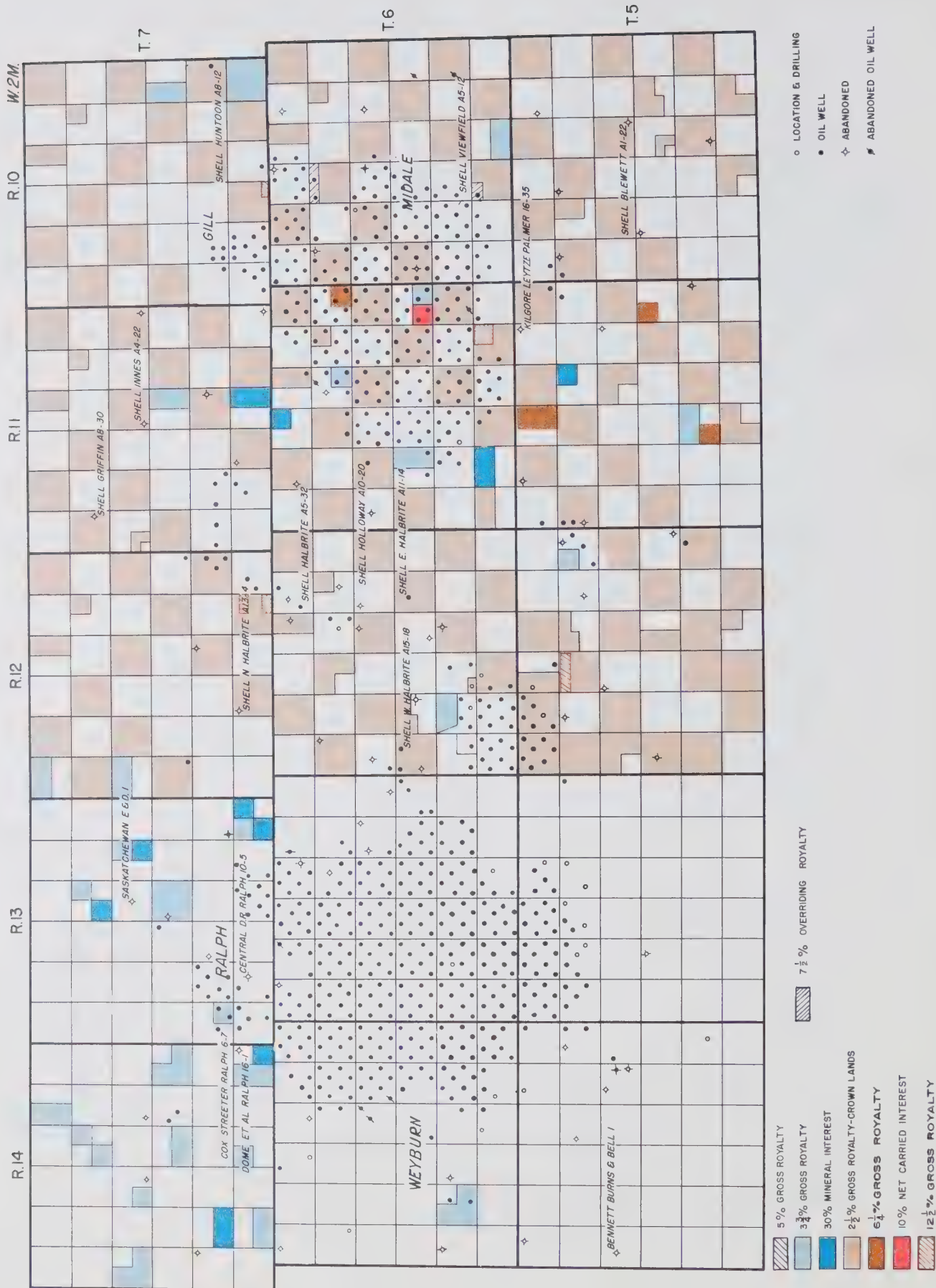
SWIFT CURRENT AREA SOUTH SHEET



1/4% GROSS ROYALTY (CROWN LEASE)

- LOCATION
- OIL WELL
- ✦ GAS WELL
- ✧ ABANDONED
- ✧ ABANDONED OIL

RALPH - MIDALE AREA



[illegible]

ALIDA-NOTTINGHAM AREA

